

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7736

Petition of Vermont Public Power Supply Authority)
("VPPSA"), pursuant to 30 V.S.A. § 108(a), for)
authority to issue long-term debt for the purposes of)
financing its 9.36% ownership share of costs related to)
the Highgate Converter Project)

Order entered: 7/20/2011

I. INTRODUCTION

On May 12, 2011, the Vermont Public Power Supply Authority ("VPPSA" or "Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(a) to obtain long-term financing for VPPSA's share of the construction costs of a warehouse and the modernization of the control system at the Highgate Converter located in Highgate, Vermont (the "Project"). The estimated cost of the Project is \$36 million and VPPSA's share, as a joint owner of the converter facility, is budgeted at \$3.8 million (equal to VPPSA's ownership percentage of 9.36%). VPPSA proposes to initially finance its share of the Project with a line of credit facility through KeyBank, N.A. ("KeyBank") for a term of two years, to be converted at the end of the two-year term to a 10-year long-term debt facility (the "Term Loan"). The Petition was supported by the prefiled testimony of Crystal Currier, Controller for VPPSA, and by accompanying exhibits.

On June 13, 2011, the Department of Public Service ("DPS") filed a letter with attached Determination Under 30 V.S.A. § 202(f) to the Board recommending that the Board approve the Petition without hearing, finding that the issuance of long-term debt as set forth in the Petition is consistent with the Vermont Electric Plan. Also, in a separate filing on June 13, the DPS submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

I have reviewed the Petition, and the supporting documents. I conclude that approval of VPPSA's Petition pursuant to 30 V.S.A. § 108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of record, the exhibits presented in this docket, and the DPS letters of June 13, 2011, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. VPPSA has thirteen members who are all Vermont municipal electric utilities.¹
Petition at 1.

2. VPPSA is a joint owner of the Highgate facility. In February 2011, the joint owners² approved the construction of a warehouse and modernization of the control system at the facility. As a joint owner, VPPSA is responsible for paying its share of any capital improvement and routine operation and maintenance costs equal to its ownership percentage of 9.36%. Currier pf. at 2.

3. The Highgate facility was constructed in 1984. Since its original construction, it has only undergone routine repair and maintenance. As the equipment and technology have significantly aged over the years, it is becoming increasingly difficult to purchase spare parts to repair the equipment. *Id.*

4. Vermont Electric Power Company, Inc. ("VELCO"), the project manager, proposes to implement the Project in two phases. The first phase ("Phase I") consists of the construction of a warehouse, replacement of the fire-protection system, and replacement of the 480V station service equipment. This phase of the Project is estimated to cost approximately \$1.9 million and to be in service by the end of 2011. The second phase ("Phase II") includes the replacement of the converter's controls and system protection, and the addition of transformer monitoring equipment

1. Barton Village, Inc. Electric Department, Village of Enosburg Falls Water & Light Department, Town of Hardwick Electric Department, Village of Hyde Park Electric Department, Village of Jacksonville Electric Company, Village of Johnson Water & Light Department, Village of Ludlow Electric Light Department, Village of Lyndonville Electric Department, Village of Morrisville Water & Light Department, Village of Northfield Electric Department, Inc., Village of Orleans Electric Department, Town of Readsboro Electric Light Department, and Swanton Village, Inc. Electric Department.

2. The current joint owners, aside from VPPSA, are City of Burlington Electric Department, Central Vermont Public Service Corporation, Vermont Electric Cooperative, Inc. Green Mountain Power Corporation, and Village of Johnson Water & Light Department.

and replacement of capacitor bank breakers to meet fault-current specifications. This phase is expected to cost approximately \$34.1 million and to be placed in service by 2013. By applying VPPSA's ownership share of the Project, VPPSA's share of the Phase I costs is approximately \$180,000, and \$3.15 million for Phase II. VELCO projects overall costs to total approximately \$17 million in 2011, \$17 million in 2012, and \$2 million in 2013. According to VPPSA's ownership interest, this equates to approximately \$1.6 million in 2011, \$1.6 million in 2012, and \$190,000 in 2013. In addition, VPPSA will incur some direct costs relating to financing its share of the Project. Currier pf. at 2-3.

4. VPPSA proposes to enter into a line of credit facility with KeyBank in an amount not to exceed \$3.8 million for a period of two years. This credit facility will be drawn upon during Phase I and Phase II of the Project to make the required incremental payments to VELCO. At the end of the two-year period, the outstanding balance will be converted to a long-term debt facility for a term not to exceed ten years. The interest rate to be charged on the line of credit facility will be equal to the overnight or one-month London Interbank Offered Rate ("LIBOR") plus 2.00%. The interest rate on the long-term debt facility will remain a variable rate of LIBOR plus 2.00% but with an option to enter into an interest-rate swap to provide an effective fixed rate for the ten-year period. Currier pf. at 3; exh. VPPSA-2.

5. The Highgate Transmission Agreement ("Agreement"), executed between VPPSA and the Highgate participants³ in 1984, is the governing document between VPPSA and the participants. Under the Agreement, VPPSA invoices the Highgate participants each month for the transmission costs of the Highgate facility. The Agreement defines "monthly transmission costs" as all costs resulting from the ownership, operation, maintenance and termination of, and necessary repairs, renewals, replacements, and additions to, the facility. VPPSA is also authorized under the Agreement to enter into notes for the purpose of financing the cost of acquisition and construction of the converter and the cost of any necessary modifications,

3. The current participants in the Highgate Converter facility are Barton Village, Inc. Electric Department, Village of Enosburg Falls Water & Light Department, Town of Hardwick Electric Department, Village of Hyde Park Electric Department, Village of Ludlow Electric Light Department, Village of Lyndonville Electric Department, Village of Morrisville Water & Light Department, Village of Northfield Electric Department, Village of Orleans Electric Department, Swanton Village, Inc. Electric Department, Town of Stowe Electric Department, and Washington Electric Cooperative, Inc.

additions, and improvements to the facility. Therefore, VPPSA intends to recover its debt-servicing obligation through invoices to each participant in accordance with the Agreement. Currier pf. at 4.

6. The Highgate Converter is a critical part of the bulk transmission system in Vermont and allows Vermont to import power from and export it to the Canadian power grid. The Project will return the facility to its original capacity of 225 MW, from a current capacity of 218 MW,⁴ for an additional 20 to 30 years. Currier pf. at 4.

III. DISCUSSION & CONCLUSION

Based upon the foregoing and the evidence in the record, I find that VPPSA's proposed financing as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the proposed transaction and authorize the issuance of long-term debt financing, including the utilization of interest-rate swaps, all in the manner described in the petition and the findings above, without hearing.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 20th day of July, 2011.

s/Jay E. Dudley

Jay E. Dudley
Hearing Officer

4. Docket No. 7670, Order of 4/15/11 at 13 (Finding 25).

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The request for long-term financing as set forth in the Vermont Public Power Supply Authority's ("VPPSA") petition in this docket, and as described in the Findings above, is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108(a), consent is hereby given to VPPSA to finance its share of the construction costs of a warehouse and the modernization of the control system at the Highgate Converter located in Highgate, Vermont, in an amount not to exceed \$3.8 million in long-term debt issued through KeyBank, N.A., according to terms consistent with the Findings above.
4. This Order does not constitute approval for VPPSA of the resulting capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of long-term debt contemplated in the petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or resulting capital structure.
5. VPPSA shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. VPPSA shall provide the Board and the DPS with a complete set of final loan closing documents within 10 days of the loan closing.

Dated at Montpelier, Vermont, this 20th day of July, 2011.

<u>s/James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: July 20, 2011

ATTEST: s/Susan M. Hudson
CLERK OF THE BOARD

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.